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C O N F I D E N T I A L SECTION 01 OF 04 WELLINGTON 000715

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SUBJECT: NZ ELECTIONS: EMBASSY CONFIDENTLY PREDICTS
UNCERTAINTY

REF: WELLINGTON 702

Classified By: Charge D'Affaires David R. Burnett,
for reasons 1.4(b) and (d).

11. (C) Summary: New Zealand's election race remains the closest in years. We believe it likely the National Party will get more votes than the Labour Government, but the real question will be whether this would be enough to ensure a National government. Mixed Member Proportional voting (MMP), and the small parties' current struggle for survival, make it difficult to predict which major party will be able to form a government. In addition, National will need a higher minimum number of votes to win than Labour, because the Nats have fewer potential coalition partners. Given the many possible outcomes, it may be days or longer before either major party can form a government. End Summary.

Labour back in front?

12. (C) It's the last day before elections, and things look as murky as ever. The week started off poorly for the Labour Government. On Tuesday, the Prime Minister was shouted down when trying to deliver a speech at Canterbury University. Although she claimed a few National supporters were to blame, other observers noted that a significant number of students, normally assumed to be core Labour supporters, also participated in the cat-calling. Then, a Fairfax-AC Nielson poll released on September 14 showed a six-point lead for National over Labour, at 43 vs. 37%, respectively. This proved that Labour-Green claims that National was colluding with the secretive Exclusive Brethren sect had failed to gain traction. That same day, the media gave wide coverage to reports that, as the result of a National Party request, an ombudsman had ordered the Government to release Treasury's original costing for Labour's student loan interest pledge. The costs were far higher than the figures cited by Labour when it introduced the initiative, and this, together with the Government's original refusal to release the data, implied both that there had been a cover-up and that there was plenty of room for National's tax cut. The Government's woes increased with the revelation that an associate minister had weighed in with immigration officials on behalf of a Thai visa overstayer, who then flew to Samoa to re-tile the minister's roof for free. The PM was criticized in the media, not for her minister's action, but for trying to sweep the issue under the rug during this election week rather than following her normal course of ordering an inquiry.

13. (C) Nevertheless, things at the end of the week look better for the Government. A poll published yesterday showed that 48% of voters believe Labour will win. Of three polls published today, the last before the election, two showed Labour in the lead. One, conducted by Herald-DigiPoll, showed Labour comfortably sprinting to victory with a seven-point lead over National (44.6% vs. 37.4). A fair number of Kiwis we know also believe that the Government has not done a bad enough job to push voters to take a risk and elect a relatively unknown National-led Government.

Still May Be National's Game

14. (C) Despite this view and the Government's apparent upswing, we nevertheless believe several factors will very plausibly lift support for National over Labour tomorrow. For one thing, the one poll this week that showed Labour well in front -- Herald-DigiPoll -- is New Zealand's most unreliable. It fails to take into account undecided voters, its questions are reportedly biased, and its sample size is relatively small. In addition, today's Herald poll was based on questioning that began well over a week ago, before Labour's decisive slide. Of the three other polls released this week, two showed National well in front of Labour (the aforementioned Fairfax poll and a One News-Colmar Brunton

poll published today, where National leads by 6 points.) The third, last night's TV3-TNS poll, showed Labour leading by just 1.8 points, well within the margin of error.

15. (C) There are other factors in National's favor. As many as 10-30% of voters remain undecided, and in the past undecided voters have tended to vote center right. Besides National, this would include United Future, which has pledged to enter coalition talks with whichever major party wins the most votes. It also includes NZ First, the other potential limited coalition partner for National. (NZ First's survival and support for National are far from certain, however. More on this later.) In addition, we suspect that polls are under-representing National's support. In this "politically-correct" environment, Kiwis are likely reluctant to admit that their vote will be driven by a desire for a tax cut and the wish to end special Maori privileges. Eighty-five percent of people surveyed in a recent poll, for example, claimed the tax issue would not influence their vote. This just isn't credible, given that National's tax plan website received over a million hits within days of posting and that support for the party climbed back up at the same time.

16. (C) Many analysts' assumptions about why Labour may win seem to us to resemble urban myth rather than solid analysis. Those who believe the strong economy will work in the Government's favor, for example, ignore the fact that many voters are angry at Labour precisely because the budget is running a surplus and yet many Kiwis will receive little or none of that money. Analysts' claims that things don't seem bad enough for people to want a change ignores the fact that no Labour Government has ever won a third term, and that a third term is almost unheard of for any party regardless. In a country that resents the "tall poppy," people may simply think that Labour's time has come. If it's a truism in the States that elections are the incumbents' to lose, then the parallel axiom here is that New Zealand voters tend to vote governments out, not in. The striking thing about National's campaign is that it has belied Labour's message that the Government is popular and capable. Voters may be tempted to send a signal that neither is the case.

17. (C) Certainly National seems to think it will win, perhaps even by an absolute majority. The party has refused to cast a life line to the doomed Act party, arguably the potential coalition partner whose ideologies are closest to the Nats. National has distanced itself from the heated Tauranga race, where NZ First leader Winston Peters, a potential coalition partner, has been trying to save his party from defeat by dredging up an old sexual harassment charge against National candidate Bob Clarkson. These (in)actions seem to reflect a quiet confidence that National has enough additional votes to win. They also reflect a deliberate plan: well before the campaign started, National strategist Peter Keenan told us the party would aim first and foremost to gain a majority of party votes. The wisdom of that approach appears to be bearing fruit, as National's support grows and the two other center right parties, United Future and NZ First, say they will throw their support behind whichever large party gains the most votes. National's own polling may also be showing them victory where other polls haven't. One Wellington-area candidate has told us that National polling of 3,000 voters found working class voters in her district -- normally Labour supporters -- will vote for her this election.

Small Parties: Wrench in the Machinery?

18. (C) But even if we are cautiously convinced that National will win more votes than Labour tomorrow, there are many possible reasons why this may not translate into a victory for the Nats. Labour has more potential coalition partners than National, so it could more easily form a government. In fact, Labour could be the victor if it won as little as 37-38% of the vote, although at that low level of support the resulting coalition (some arrangement with Greens, Progressives, United Future, NZ First, and perhaps the Maori Party) would be very unstable. Because the absolute minimum floor for National is higher, at least 42-44% and possibly more, the odds of it being able to form a government are lower. Also, the Maori Party is set to receive just 1-2% of the Party vote, but is likely to win more than this amount in electorate seats. (It will likely win 3-4 of the special Maori seats now occupied by Labour.) Under MMP, this will create an "overhang" that increases the number of seats in Parliament and, by extension, the percentage a party or coalition will need in order to gain a majority. This too, could work against National.

19. (C) Then there is the New Zealand First issue. The party's declared post-election policy may not be as clear as it contends, potentially creating still more confusion if the Labour-National results are close. NZ First Leader Winston Peters has declared his party will back whichever major party

wins the most votes, as has United Future's Peter Dunne. Unlike United Future, NZ First has ruled out joining a formal coalition, but would support the Government on issues of confidence (ie, votes under which could topple the Government) and supply (budget issues). Other NZ First staff, however, have said the party will offer confidence and supply support to whichever bloc of parties has the most votes. In that case, NZ First would support a Labour-Green-Progressive grouping if it had more votes than National or a National-United Future alliance, even if National had more votes than Labour. Peters has since repeated his majority-party stance, but given his personality, we could see him back away from this, especially if the gap between National and Labour were very small. He would doubtless cite the known preference of his party's voters as the reason, as a majority of them reportedly favor a deal with Labour over National. His real motive, however, would be that NZ First would more easily play the spoiler, and gain more recognition, in a Labour-Green-led coalition. A National-United Future coalition would be more stable and closer to NZ First's ideology on many issues, offering less opportunity for NZ First to stand out.

10. (C) That is, however, only an issue if NZ First survives this election. Although the party now on average polls at 5-7 percent, in some polls it has not met the minimum 5% party vote threshold. NZ First's only potential electorate win is Winston Peters' seat, and as mentioned earlier he is facing a difficult fight against the National candidate in his Tauranga district. If he loses, and the party fails to gain 5% of the party vote, they will be out. The Greens, at 5-6 percent support, are very unlikely to win any electorate seats, so will also be out of Parliament if they fail to meet the party threshold. Whether Labour or National gains from these parties' elimination from Parliament depends on the scenario. If the Greens narrowly miss the threshold, Labour would probably need much more support than is now the case -- at least 40-1% -- to ensure NZ First's support and the victory. If NZ First misses narrowly, National will have no chance of winning without at least 46% or more of the vote. If either Greens or NZ First end up well below the threshold because they've lost considerable support to a major party, then Labour is the likely beneficiary of those votes in both cases and National will probably lose.

11. (C) The other wrinkle here is that under MMP, if one or both of those two small parties fail to reach the 5% threshold and also fail to gain any electorate seats, most of the party vote they do get will be reallocated proportionately among the major parties. The same will happen with Act's all-but-certain sub-5% party vote share. This makes the final outcome of the race even harder to predict.

12. (C) Unless one of the major parties wins an outright majority or something close to that, it may be days before negotiations with minor parties lead to a government. Another wrinkle is that Winston Peters has threatened to sue his opponent for allegedly exceeding campaign finance limits. This could throw the outcome of the election into doubt for weeks, especially if NZ First polls below the 5% party vote threshold.

COMMENT

13. (C) Even if National loses, victory could be a mixed blessing for Labour. The Government would probably need at least 44% or so and a Green victory of at least 5-6 percent to end with a relatively stable Labour-Green-Progressive coalition. Lower Labour support, and/or a loss of the Greens, makes any potential Labour-led Government far less stable, as it would also have to include some combination of United Future (which has rejected a formal coalition with the Greens) the Maori Party (which hates Labour because of the Foreshore and Seabed legislation) and NZ First (which is an entity unto itself). A National victory (ie, National alone, National-United Future, or National-United Future in a limited voting agreement with NZ First) would be far more stable.

14. (C) National's ability to create such a close race in a time of relative prosperity and stability also shows that a new Labour Government would have to satisfy an increasingly restive public. Recent signs that the economy is slowing will only add to the Government's pressures.

15. (C) Oddly, the real beneficiary of this race may be United Future's Peter Dunne. If he ends in coalition with National, many believe he will be made Foreign Minister. This would ease concerns about National's "hidden agenda" with the United States. Although Dunne has ruled out participating in any government that formally includes the Greens, in recent days Clark has indicated she may now opt for a voting

arrangement with the Greens instead of a formal coalition. The Greens would likely accept this as they have nowhere else to go, and this could open the way for United Future's coalition participation. In this case, too, Dunne is rumored to be a possible Foreign Minister. Either way would benefit us: Dunne favors better relations with the United States and his pragmatic, non-ideological bent would pass muster with whichever major party ends up in opposition. End Comment.

Burnett